

PICC P&C (2328 HK)

Look to rebound after COVID-19

PICC P&C's 2019 results were underscored by net profit increase (+49.7% YoY), motor insurance underwriting margin improvement, and better investment gains. However, non-motor business lines exhibited worsening loss ratio against macro and industry headwinds, thereby dragging underwriting profit. The Company suffered premium decline in Jan-Feb 2020. Going forward, we expect robust rebound coming from postponed P&C demand and recovering car sales. U/G to BUY.

- Result positives.** 1) Net profit rose 49.7% YoY to RMB 24.3bn primarily on back of tax deductions (RMB 4.23bn), realized and unrealized gains (RMB 733mn vs. RMB 1.23bn net loss in 2018) and cost control. 2) Motor insurance business achieved improvement in combined ratio by 1.7ppt YoY to 96.7%, attributable to remarkable 4.3ppt cut in expense ratio to offset +2.6ppt in loss ratio. 3) Enhanced solvency position. The Company issued capital supplementary bond of RMB 8bn in Mar 2020, which is estimated to boost comprehensive solvency ratio by 12.4ppt, based on YE19 figures. 4) Dividend payout ratio was lifted from 39.1% to 42.2% in 2019, after being significantly raised in 2018 from 25.3% in 2017. Dividend yield would reach 6%.
- Underwriting profit shrank**, following an increase in combined ratio to 99.2%, up 0.7ppt YoY, primarily resulted from non-motor business lines (combined ratio +6.2ppt to 104.7%). The majority of non-auto business lines witnessed worsening underwriting margin, and the case was more stark with respect to credit & surety, agriculture and cargo insurance. Combined ratio of credit & surety overshot to 121.7% in 2019 vs. 96.9% in 2018, and expense ratio rose 6.9ppt while loss ratio +17.9ppt.
- Negative impact of COVID-19 to diminish gradually.** Premium growth -4.4% in Jan-Feb. Not only motor insurance suffered, but non-motor business lines as well. In 2019, about 36% of annual non-motor premiums were concentrated in 1Q. Uneven distribution is more marked regarding accidental injury and health insurance (49% in 1Q), which was the largest component of non-motor business. However, demand for P&C is delayed rather than disappear. As economic activities resume and auto market stimulus comes into play, we think P&C premium growth will rebound. Loss ratio of non-motor may increase, but that of motor is likely to improve due to reduced travels.
- U/G to BUY due to low valuation and expected rebound after COVID-19.** We trim TP to HK\$ 9.83 to reflect underwriting margin pressure and a change in cost of equity assumptions. Our TP corresponds to 1.0x FY20E P/B. The stock is currently trading at 0.85x/0.77x FY19A/20E P/B. Positive catalysts include rebound in P&C demand and recovering car sales.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Gross written premiums (RMB mn)	388,769	433,175	452,829	494,198	534,867
Underwriting profit (RMB mn)	5,304	3,177	1,003	3,623	3,933
Net profit (RMB mn)	16,222	24,282	23,832	26,725	28,445
EPS (RMB)	0.696	1.09	1.07	1.20	1.28
EPS CHG (%)	-47.90	56.86	-1.85	12.14	6.43
Consensus EPS (RMB)	0.70	1.11	1.07	1.20	1.23
PER (x)	9.38	5.98	6.09	5.43	5.11
PBR (x)	1.03	0.85	0.74	0.64	0.57
Yield (%)	4.17	7.06	6.93	7.77	8.27
ROE (%)	11.81	15.59	13.01	12.65	11.78

Source: Company data, Bloomberg, CMBIS estimates

BUY (Up)

Target Price	HK\$9.83
(Previous TP)	HK\$10.16)
Up/Downside	+29.6%
Current Price	HK\$7.28

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	161,927
Avg 3 mths t/o (HK\$ mn)	225.96
52w High/Low (HK\$)	10.26/5.93
Total Issued Shares (mn)	22,243

Source: Bloomberg

Shareholding Structure

PICC Group	68.98%
Free float	31.02%

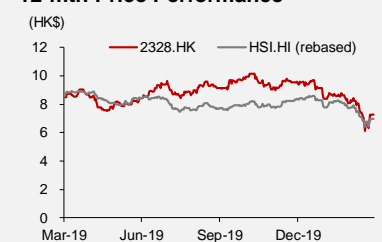
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.8%	0.4%
3-mth	-23.8%	-8.4%
6-mth	-20.4%	-12.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- "Mixed underwriting results" – 28 Aug 2019
- "2018 results missed; cautious on expense ratio outlook" – 25 Mar 2019
- "Solid underwriting performance; expect auto insurance fee rate to decline" – 28 Aug 2018
- "Undervalued leading P&C insurance company" – 24 May 2018

Figure 1: PICC P&C's 2019 results summary

(RMB mn)								
P/L	1H19	2H19	HoH	2H18	YoY	2018A	2019A	YoY
GROSS WRITTEN PREMIUMS	236,036	197,139	-16.5%	183,728	7.3%	388,769	433,175	11.4%
Motor vehicle insurance	127,487	135,440	6.2%	136,471	-0.8%	258,904	262,927	1.6%
Non-auto insurance	108,549	61,699	-43.2%	47,257	30.6%	129,865	170,248	31.1%
Net earned premiums	180,188	200,495	11.3%	175,290	14.4%	344,124	380,683	10.6%
Net claims incurred	(116,654)	(135,168)	15.9%	(110,034)	22.8%	(213,303)	(251,822)	18.1%
Net policy acquisition costs	(37,594)	(40,349)	7.3%	(46,000)	-12.3%	(90,508)	(77,943)	-13.9%
Other underwriting expenses	(16,951)	(21,449)	26.5%	(16,749)	28.1%	(26,820)	(38,400)	43.2%
Administrative expenses	(4,650)	(4,691)	0.9%	(3,961)	18.4%	(8,189)	(9,341)	14.1%
UNDERWRITING PROFIT	4,339	(1,162)		(1,454)		5,304	3,177	-40.1%
Investment income	8,728	8,258	-5.4%	7,853	5.2%	16,635	16,986	2.1%
Net realised and unrealised gains	818	(85)	-110.4%	(1,025)	-91.7%	(1,226)	733	-159.8%
Finance costs	(991)	(433)	-56.3%	(981)	-55.9%	(2,074)	(1,424)	-31.3%
Share of profits of associates	2,109	2,141	1.5%	2,134	0.3%	4,482	4,250	-5.2%
Other income and expenses	325	29	-91.1%	782	-96.3%	1,044	61	-94.2%
PROFIT BEFORE TAX	15,169	8,614	-43.2%	10,305	-16.4%	24,165	23,783	-1.6%
Income tax expense	1,652	(1,156)		(3,177)		(7,942)	496	
Non-controlling interest	-	3		-		(1)	3	
NET PROFIT	16,821	7,461	-55.6%	4,132	80.6%	16,222	24,282	49.7%
B/S	1H19	2H19	HoH	2H18	YoY	2018A	2019A	YoY
Investment assets	441,070	464,751	5.4%	434,222	7.0%	434,222	464,751	7.0%
Total assets	604,214	596,081	-1.3%	550,619	8.3%	550,619	596,081	8.3%
Insurance contract liabilities	323,777	305,140	-5.8%	275,781	10.6%	275,781	305,140	10.6%
Total liabilities	445,234	426,127	-4.3%	409,116	4.2%	409,116	426,127	4.2%
Shareholders' funds	158,972	169,953	6.9%	141,495	20.1%	141,495	169,953	20.1%
Key metrics	1H19	2H19	HoH	2H18	YoY	2018A	2019A	YoY
Loss ratio	64.7%	66.2%	1.4ppt	62.0%	4.2ppt	62.0%	66.2%	4.2ppt
Expense ratio	32.9%	33.0%	0.2ppt	36.5%	-3.5ppt	36.5%	33.0%	-3.5ppt
Combined ratio	97.6%	99.2%	1.6ppt	98.5%	0.7ppt	98.5%	99.2%	0.7ppt
Total investment yield	n/a	n/a	n/a	n/a	n/a	4.5%	4.9%	0.4ppt
Core solvency margin ratio	242%	251.7%	9.8ppt	228.6%	23.1ppt	228.6%	251.7%	23.1ppt
Comprehensive solvency margin ratio	286%	282.1%	-3.6ppt	275.4%	6.7ppt	275.4%	282.1%	6.7ppt

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
GROSS WRITTEN PREMIUMS	388,769	433,175	452,829	494,198	534,867
Motor vehicle insurance	258,904	262,927	265,556	278,834	287,199
Non-auto insurance	129,865	170,248	187,273	215,364	247,668
Net earned premiums	344,124	380,683	409,408	440,054	477,660
Net claims incurred	(213,303)	(251,822)	(271,036)	(290,863)	(315,719)
Net policy acquisition costs	(90,508)	(77,943)	(85,321)	(90,274)	(97,988)
Other underwriting expenses	(26,820)	(38,400)	(41,983)	(44,475)	(48,276)
Administrative expenses	(8,189)	(9,341)	(10,065)	(10,819)	(11,743)
UNDERWRITING PROFIT	5,304	3,177	1,003	3,623	3,933
Investment income	16,635	16,986	17,155	17,510	18,607
Net realised and unrealised gains	(1,226)	733	287	309	332
Finance costs	(2,074)	(1,424)	(1,470)	(1,470)	(1,470)
Share of profits of associates	3,745	4,250	14,020	14,809	15,643
Other income and expenses	1,044	61	(47)	(77)	(108)
PROFIT BEFORE TAX	24,165	23,783	30,947	34,704	36,937
Income tax expense	(7,942)	496	(7,118)	(7,982)	(8,496)
Non-controlling interest	(1)	3	3	3	3
NET PROFIT	16,222	24,282	23,832	26,725	28,445

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Growth rates (%)					
GROSS WRITTEN PREMIUMS	11.0	11.4	4.5	9.1	8.2
Motor vehicle insurance	3.9	1.6	1.0	5.0	3.0
Non-auto insurance	28.5	31.1	10.0	15.0	15.0
NET PROFIT	(18.1)	49.7	(1.9)	12.1	6.4
Underwriting (%)					
Loss ratio	62.0	66.2	66.2	66.1	66.1
Expense ratio	36.5	33.0	33.1	33.1	33.1
Combined ratio	98.5	99.2	99.3	99.2	99.2
Solvency (%)					
Core solvency margin ratio	229	252	273	291	300
Comprehensive solvency margin ratio	275	282	326	340	345
Returns (%)					
ROE	11.8	15.6	13.0	12.7	11.8
ROA	3.0	4.2	3.8	4.0	4.0

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Investment assets	434,222	464,751	503,572	541,266	580,356
Other assets	116,397	131,330	139,657	144,198	149,857
TOTAL ASSETS	550,619	596,081	643,229	685,464	730,213
Insurance contract liabilities	275,781	305,140	325,005	353,744	383,389
Other liabilities	133,335	120,987	121,913	105,593	90,003
TOTAL LIABILITIES	409,116	426,127	446,919	459,336	473,391
Issued capital	22,242	22,242	22,242	22,242	22,242
Reserves	119,253	147,711	174,068	203,885	234,579
Shareholders' equity	141,495	169,953	196,310	226,127	256,821
TOTAL EQUITY	141,503	169,954	196,311	226,128	256,822

Investment (%)					
Investment assets, YoY	4.5	7.0	8.4	7.5	7.2
Per share data (RMB)					
EPS	0.70	1.09	1.07	1.20	1.28
DPS	0.27	0.46	0.45	0.51	0.54
BVPS	6.36	7.64	8.83	10.17	11.55

Source: Company data, CMBIS estimates

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